

Patricia M. French
Senior Attorney



300 Friberg Parkway
Westborough, Massachusetts 01581
(508) 836-7394
(508) 836-7039 (facsimile)
pfrench@nisource.com

July 21, 2005

BY OVERNIGHT DELIVERY AND E-FILE

Mary L. Cottrell, Secretary
Department of Telecommunications and Energy
One South Station
Boston, MA 02110

Re: Bay State Gas Company, D.T.E. 05-27

Dear Ms. Cottrell:

Enclosed for filing, on behalf of Bay State Gas Company ("Bay State"), please find Bay State's responses to the following Information Requests:

From the Attorney General:

AG-12-43 AG-12-44

From the Department:

DTE-4-3 (Supp.) DTE-5-38 (Rev.) DTE-6-3 (Rev.)

Please do not hesitate to telephone me with any questions whatsoever.

Very truly yours,

Patricia M. French

cc: Per Ground Rules Memorandum issued June 13, 2005:

Paul E. Osborne, Assistant Director – Rates and Rev. Requirements Div. (1 copy)
A. John Sullivan, Rates and Rev. Requirements Div. (4 copies)
Andreas Thanos, Assistant Director, Gas Division (1 copy)
Alexander Cochis, Assistant Attorney General (4 copies)
Service List (1 electronic copy)

COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE
TWELFTH SET OF INFORMATION REQUESTS FROM THE ATTORNEY GENERAL
D. T. E. 05-27

Date: July 21, 2005

Responsible: Steven A. Barkauskas, Vice President Total Rewards

AG-12-43 Referring to Exhibit BSG/SAB-1, Schedule SAB-9, please provide a complete copy of the study referred to in Note 1 to that schedule.

Response: Please see the Company's response to AG 12-24 (a) CONFIDENTIAL.

COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE
TWELFTH SET OF INFORMATION REQUESTS FROM THE ATTORNEY GENERAL
D. T. E. 05-27

Date: July 21, 2005

Responsible: Steven A. Barkauskas, Vice President Total Rewards

AG-12-44 Referring to Exhibit BSG/SAB-1, Schedule SAB-9, please provide a complete copy of the study referred to in Note 2 to that schedule.

Response: Please see the Company's response to AG 12-24 (b) CONFIDENTIAL.

COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE
FOURTH SET OF INFORMATION REQUESTS FROM THE D.T.E.
D. T. E. 05-27

Date: July 21, 2005

Responsible: Lawrence R. Kaufmann, Consultant (PBR)

SUPPLEMENTAL RESPONSE

DTE-4-3 Refer to Exh.BSG/LRK-2, at 5. The Company states that the pension costs were excluded since these are largely beyond management control and vary greatly. Please:

- (a) provide the average percentage of pension expense with respect to the total wages;
- (b) indicate whether pensions are included in the labor input price of the productivity study (in the input price differential section of the study). If yes, please explain the rationale for including the pensions in the productivity study and excluding them in the cost analysis. How is the price-cap index affected by the "inclusion" and "exclusion" of pensions?
- (c) indicate whether pensions were included in the "cost trend analysis";
- (d) indicate whether the labor input price is an exogenous variable in the model. If yes, please explain, in view of the argument that pensions are beyond the Company's control, why the Company excluded pensions from the labor input price.

Response:

- (a) Bay State continues to work on this question, and will supplement this response with the requested information as soon as it is available.
- (b) Pensions were included in labor input price for Boston Gas and therefore the input price differential computed in DTE 03-40. Pensions were not included in the labor input price used for Bay State. The reason for this difference is that our benchmarking and total factor productivity analyses (including those done for Boston Gas) have traditionally included pensions and benefits in the cost and labor input price measures. However, in the last few years, those costs have become much more volatile. Gas distributors also differ substantially in terms of the share of pensions in O&M costs. Since the volatility in pension costs is largely beyond current managers' control and differs significantly among distributors, we removed pension costs to obtain a cost measure that was more relevant for evaluating distributors' success in managing their O&M costs.

In order to consider how the price cap index (PCI) determined in DTE 03-40 would have differed if pensions were excluded, we have

recomputed total factor productivity (TFP) and input price trends for Northeast gas distribution industry for the 1990-2001 period excluding pensions and benefits from the measure of labor cost and using the employment cost index excluding pensions and benefits for the electric, gas and sanitary sector (available from the Bureau of Labor Statistics) as the updated labor price. In DTE 03-40, the X factor component of the PCI was equal to the TFP differential plus the input price differential plus the consumer dividend. The Department found that the TFP differential was -0.19%, the input price differential between the US economy and the Northeast gas distribution industry was 0.3%, and the consumer dividend was 0.3%, so the overall X factor was 0.41%.

After excluding pensions from labor costs and the labor input price, we find the impact on the TFP differential is -0.18% (*i.e.* it changes from -0.19% to -0.37%) and the impact on the input price differential is +0.11%. There should be no implications for the consumer dividend resulting from this change. Therefore, we find that excluding pensions from our PCI analysis would reduce the X factor by .07% to 0.34%.

- (c) Pensions were included in Bay State's cost trend analysis.
- (d) The labor input price was an exogenous (independent) variable in the cost model. Exogenous variables are not under the control of management. Accordingly, it is appropriate for the labor price used in the Bay State O&M cost analysis to exclude pensions, since the cost model is designed to evaluate the Company's efficiency after controlling for variables that are beyond managerial control.

SUPPLEMENTAL RESPONSE

Regarding Bay State's response to (a), above, for 2004, pension expense represents an average of 11.1% of total wages.

COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE
FIFTH SET OF INFORMATION REQUESTS FROM THE D.T.E.
D. T. E. 05-27

Date: July 21, 2005

Responsible: John E. Skirtich, Consultant (Revenue Requirement)

REVISED RESPONSE

DTE-5-38 Refer to Exh. BSG/JES-1, at 28-29. Please provide a copy of two job orders, randomly selected from those issued on the last business day of the month for each month of the test year, where it was necessary to allocate charges incurred by NCSC among affiliates.

Response: Attached as Attachment DTE-5-38 are copies of two job orders for each month of the test year where it was necessary to allocate charges incurred by NCSC among affiliates.

<u>Job Order - Description</u>	<u>Vendor</u>	<u>Amt. Billed</u> <u>to BSG</u>
Jan		
0019-0100-AD - GAS SUPPLY - CORPORATE	DELL MARKETING	355.52
0066-0100-AG - TREASURY - CORPORATE	MOODY'S INVESTOR	2,388.00
Feb		
0010-0101-TA - CORPORATE TAX MATTERS	DELOITTE & TOUCHE	275.31
0008-0318-KG - LABOR AND EMPLOYMENT	SCHIFF, HARDIN, WAITE	6,485.51
Mar		
0027-0100-KF - HUMAN RESOURCES - CORPORATE	AYCO COMPANY	324.42
0002-0101-KF - FILE MAINTENANCE	PROBUSINESS	417.41
Apr		
0053-0224-BA - ELECTRONIC MEASUREMENT	EAGLE RESEARCH	37.70
0576-0100-TA - PEOPLESFT CODE BLOCK TEAM MATTERS	PEOPLESFT	4,321.85
May		
0876-0100-MK - HELP DESK-CORPORATE	POMEROY COMPUTER	4,369.16
0871-0101-MM - DATA CENTER - DISTRIBUTING COMPUTING	IBM GLOBAL	178.69
Jun		
0057-0100-AG - GOVERNMENTAL AFFAIRS - CORPORATE CHARGES	APA TEN G	469.29
0047-0101-MY - BUILDINGS RENT	CITY TREASURER	3,450.55
Jul		
0008-0394-TA - CORPORATE MATTERS (TA)	SCHIFF, HARDIN, WAITE	7,759.99
0874-0101-TA - CORPORATE APPLICATIONS DEVELOPMENT - CORPORATE	DIVERSIFIED MKT	19.02
Aug		
0047-0101-MY - BUILDINGS RENT	US POSTAL SERVICE	1,878.00
0015-0101-TA - EH & S GENERAL	MIDWEST ENERGY	25.75
Sep		
0877-0261-JB - ECIF / WEB SS	F1	947.63
0008-0308-AD - REGULATORY STATE	CDW SELECT, INC	84.35
Oct		
0064-0101-TA - CORPORATE COMPLIANCE	AMERICAN GAS	251.42
0009-0100-AD - FINANCE & STRATEGY - DIST- CORPORATE	ACLOCHE	1,551.04
Nov		
0086-0100-AD - STRATEGIC PROCUREMENT & ANALYSIS - CORP	FIREPROOF	1,947.94
0053-0213-BA - TECHICAL OPERATIONS - GIS	KEMA CONSULTING	12,950.12
Dec		
0033-0100-KD - REGULATORY & GOVERNMENTAL - DIST - CORP	TRAVEL & TRANSPORT	23.52
0015-0237-AD - HEALTH & SAFETY	ON-SITE CALIBR	38.46

Note:

The numeric numbers defines the job order and the two letters designates the allocation code.

A description of the codes included here are as follows:

AD = All Distribution based on assets and O&M expense

AG = All companies based on assets and O&M expense

TA = Historic contract billing.

KG = All companies based on employees

KF = All companies including NCSC on employees

BA = All companies based on assets

MK = All companies based on client devices (PCs, MDT, and Printers)

MM = All companies based on other devices (Servers, Telephony, etc.)

MY = All companies based on floor space

JB = Distribution companies and NIPSCO based on retail customers

KD = Distribution companies based on employees

COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE
SIXTH SET OF INFORMATION REQUESTS FROM THE D.T.E.
D. T. E. 05-27

Date: July 21, 2005

Responsible: John E. Skirtich, Consultant (Revenue Requirements)

REVISED RESPONSE

DTE-6-3 Refer to Exh. BSG/JES-1, Sch. JES-1 and Supplementary Filing Requirements Vol. 1. Please provide page, account, and line references to the Company's 2004 Annual Report to the Department for each line item in col. 1 ("Per Books") of Exh. BSG/JES-1, Sch. JES-1. If any item in Exh. BSG/JES-1, Sch. JES-1 does not appear in the Company's 2004 Annual Report to the Department, please provide source materials.

Response: Please see Attachment DTE-6-3.

Bay State Gas Company
Exhibit BSG/JES-1 Schedule 1 / 2004 Annual Report to the Department

<u>Description</u>	<u>Per</u> <u>Books</u> <u>(1)</u> <u>\$</u>	<u>Reference</u> <u>(2)</u>			
Operation Revenue	510,457,335	Page 10, Line 2			
Operating Expenses:					
Cost of Gas	323,863,512 (a)		Page 47, Line 33 <u>Total O&M</u> (1) \$ 422,870,995	Page 46, Line 12 Production/ <u>Cost of Gas</u> (2) \$ 326,855,062	O&M <u>Expense</u> (1 - 2 = 3) \$ 96,015,933
		Page 45, Line 20		(565,060)	565,060
		Page 45, Line 23 (1)		(195,240)	195,240
		Page 45, Line 26		(476)	476
		Page 45, Line 27		(46,333)	46,333
		Page 45, Line 43		(858,065)	858,065
		Page 45, Line 44		(914,499)	914,499
		Page 45, Line 50		(411,816)	411,816
		Page 46, Line 10 (2)		(61)	61
				323,863,512 (a)	99,007,483 (b)
O&M Expense	99,007,484 (b)				
Depreciation	24,126,707	Page 10, Line 6			
Amortization	15,036,749	Page 10, Line 7			
Taxes Other Than Income	9,665,342	Page 49, Column d, Line 15 Minus Line 2			
(1) O&M Expenses					
Acct 754-00 LNG Liquefaction	148,035				
Acct 754-95 LNG Liquefic FLT Exp	17,821				
Acct 754-96 LNG Liquefic Stores Exp	27				
Acct 757-00 LNG Exp Vaporization	11,790				
Acct 757-06 LNG Exp Vapo Easton	10,900				
Acct 757-07 LNG Exp Marshfield	3,903				
Acct 757-95 LNG Vapor FLT Exp	2,760				
Acct 757-96 LNG Vapor Stores Exp	3				
	195,240				
(2) O&M Expenses					
Acct 495-03 Maintenance of AGAWAM Turbo	61				